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SOME PURPOSES AND RESULTS OF PRICE FIXING

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It will be some years before a full and careful analysis can be made of the effects of price fixing in the various countries. Even given a long time for the study, the problem will be exceedingly complicated because in many cases the fixed prices have been ignored in actual transactions; therefore the records may not show the facts. In other cases, prices have been definitely fixed without any official evidence. In this country there has been a considerable amount of price fixing by indirect means, in cases where no laws gave the power to fix prices.

The term price fixing is used in this paper to cover all cases where government agents have determined the price at which commodities were sold.

In some cases prices have been fixed by request or suggestion, but often the punishment for failing to accept the suggestion would have been more severe than for failure to obey a law.

Another form of price fixing has been the fixing of prices at which stored products such as butter and eggs could be sold. The fact that consideration was given to costs may have helped in determining what the price should be, but the result was none the less a fixed price.

In this very limited paper the writer will state only a few of the results of price fixing. The principles involved have long been known to economists, but the general public does not know either the facts or the principles, and herein lies the danger. The principles involved are general, but illustrations will be taken from the field of agriculture because the writer is working in this field. It is also probable that in the various countries more price fixing has been done for agricultural than for other products.

Reasons for Price Fixing

There are three conditions under which price fixing is generally recognized to be essential: (1) when the government is to take all or nearly all of a given product, as in the case of wool in 1918; (2) when a monopoly exists; (3) when a city is besieged.

These are simple cases. The besieged city should take over all of the food supplies and ration the population. Since no food is

produced, fixed prices will not stop production. A monopoly must be controlled. The government must have power to take private property for public use.

Aside from the three reasons for price fixing that are enumerated above, there are many other motives, some of which occasionally justify price fixing, but most of which are fallacious and result in public as well as private injury.

Prices may be fixed to try to overcome the effects of inflation. They may be fixed to avoid the necessity for economy. They may be fixed to benefit some class in the population. The reasons for wishing to benefit such a class may be because this class is in control of the government, or because the government is afraid of it, or because votes are desired, or because of a desire to compel some one class to help the poor.

When governments assume the rôle of middleman in international trade, prices become an international question and may be fixed for corresponding reasons. There are many other motives, such as a desire to hold down prices of food so that wages will not rise, thus indirectly reducing the amount that a government must borrow.

Some Objections to Price Fixing

The popular demand for price fixing comes very largely from a desire to avoid the necessity of economy. The ordinary consumer believes that if prices are fixed he can have more of the product, not realizing that, whatever the price, we can eat only as much as there is, and that a reduced price reduces the production of the product that was already short.

In times of a short crop or unusual demand the desire for price fixing is increased, but in times of a short crop the producers look for good prices to offset in part the low yield. The short crop of wheat in 1917 resulted in a fixed price. The total returns from winter wheat per acre planted divided by the index numbers for wholesale prices of all commodities give the next to the lowest returns for any one of the last twelve years (Table 7). Producers were disappointed with the low returns. High prices or compulsion are necessary if a short supply is to be made to last uniformly throughout the year. In 1917, the wheat crop was consumed much too rapidly early in the year (Table 3).

The high cost of living in each generation promises to become a more difficult question. A correct understanding of the problem is, therefore, of more than passing importance. We have, doubtless,

passed the point of maximum food production per hour of human labor. New inventions help, but in spite of them, every additional bushel is now a more expensive bushel. A machine that saves labor on the farm does not save as much human time as is often assumed, for someone must make the machine. Food is becoming fundamentally more expensive to produce in terms of human effort, because poorer land must be used and because, on the good land, production has reached the point of diminishing returns. If it were not necessary to increase the amount of food, inventions would reduce the amount of human effort required in food production. But the demand for more food calls for the use of land that must be re-claimed at great expense, and calls for more intensive methods on land now in use. It is of course possible, and perhaps probable, that improvements in manufacturing will take place so fast as to more than offset the increasing cost of food so that general well-being may continue to be improved. But food is almost certain to continue to call for a larger share of the workers' income, if the population of the world continues to increase as it has done in the past fifty years. There are no more Iowas waiting for the plow.

One of the great underlying factors in the present world conflicts is the effort to place the blame for the pressure of population on food supply. We can no longer obtain the former supply of food with the same effort. Not knowing that this is due to the ratio of population to natural resources, each class believes that it is not receiving just treatment. The industrially minded believe that farmers are at fault, labor blames capital, farmers blame middlemen, consumers blame prices, nations blame each other.

A fundamental objection to price fixing is that for every product there are more consumers than producers. Majority opinion on prices is therefore in grave danger of strangling any industry to which a price-fixing policy is applied. When discussing the desirability of increasing freight rates, a popular argument was that only a few persons would be benefited, whereas a great number of shippers and consumers would suffer. This point of view is practically always presented in price-fixing discussions. Publishers and educators usually have the consumer's point of view—except, of course, on their own wares. The cotton grower believes in a fixed price on wheat, but not on cotton. The newspaper believes in a fixed price on paper, but not on newspapers. Most price fixing is essentially class favoritism. If it continues long enough, first one class and then another may gain the ascendancy.

The food-control and price-fixing campaigns have magnified both the importance of food control and the injustices that exist. At the same time, the protecting power of the government has been magnified. In popular opinion the government is coming to have many of the attributes of the Deity. The government can raise wages, make products abundant and cheap to the consumer, and at the same time give the producer cost plus. Since each class shares these hopes, each in turn will call on the government for help.

Unfortunately the publicity campaigns in connection with price control have featured instances of injustice and have led the public still further in its mistaken idea that high prices and food shortage are in general due to the fact that the public is being "held up." This leaves a bad state of mind for meeting the real problem. These misleading campaigns, exaggerating both the evils of the present system and the beneficial effects of food control, have led a large proportion of the population to believe that the producers and dealers in food are their natural enemies, that they are profiteers, and must be curbed by governmental action, or by more violent means if necessary.

An opposite and favorable effect has also resulted. The intense desire of the government to reduce food prices has led the consumers to have great confidence in government price control. In some instances, this has led to the willing acceptances of just prices that might otherwise have been considered unjust, and has been a benefit.

One of the effects of price fixing is the impetus that it has given to the organization of farmers. Formerly farmers have, in general, sold the results of their labor according to the law of supply and demand. They have, therefore, not been organized. It may be good public policy to have farmers organized, but certainly it would be better if such organization could have a normal growth rather than a forced growth.

Fixed prices stimulated the movement from farms to cities. In the year ending February 1, 1918, as shown by the State Census in New York, 21,430 persons left the farms to work in other industries. This was a larger number than went for military service. Nor did they all go to war industries. The number who returned to farms during the year was 13,894. It is, of course, impossible to tell how much of this unfavorable balance was due to fixed prices, but a very large part of it is certainly a result of price fixing.

The movement to and from farms is always going on. A State

Census in New York in 1917 indicated that 46,367 sons of the present farm operators were working at some industry other than farming. There may soon come a time when the net movement will be to farms. Price fixing increased the movement to cities, delayed the turn of the tide, accentuated the maladjustment, and may make the return movement too violent when it does come.

Price Fixing to Overcome the Effects of Inflated Currency

Most of the arguments for price fixing of foods in this country were based on a desire to overcome the effect of inflation, or to keep prices of food from going up along with general prices.

If the dollar were stabilized, most of the clamor for price fixing in this country could have been avoided. Most of the popular arguments for price fixing were efforts to bring everything back to the old dollar.

Food prices and general commodity prices have on the average followed bank deposits, as is shown in Table 1.

TABLE 1.—INDEX NUMBERS FOR BANK DEPOSITS AND PRICES

Year	Bank deposits ¹	Wholesale prices ²	Wholesale prices of food ³	Average farm prices 30 farm products ⁴
Average 1910-1914	100	100	100	100
1914	110	101	103	99
1915	118	102	106	101
1916	147	125	128	121
1917	174	178	180	185
1918 (preliminary)	201 ²	196 ⁵	183 ⁵	198 ⁵

¹ E. W. Kemmerer, *American Economic Review*, June 1918, p. 255.

² Report of Committee on War Finance of the American Economic Association, Dec. 1918, p. 98. Recalculated to the five-year base. The figures are an average for Mar. 4, May 10, and June 29.

³ Recalculated from Reports of the U. S. Bureau of Labor.

⁴ Calculated from prices reported by the U. S. Department of Agriculture.

⁵ Average for Mar., May, June, July, 1918.

In 1917, the index figure for gold and gold certificates compared with 1910-14 stood at 185, bank deposits at 174, and food stood at 180. Bank deposits increased before the commodity prices increased.

The index numbers for wholesale prices are much the same as they were during the Civil War as is shown by Table 2.

TABLE 2.—INDEX NUMBERS OF WHOLESALE PRICES CIVIL WAR AND WORLD WAR¹

Year	Index number	Year	Index number
1856-1860	100	1909-1913	100
1861	95	1914	102
1862	112	1915	103
1863	141	1916	127
1864	181	1917	180
1865	205	1918 July	204
1866	181		
1867	163		
1868	152		
1869	145		
1870	135		
1871	129		
1872	132		
1873	130		
1874	126		
1875	121		
1876	112		
1877	105		
1878	96		
1879	92		
1880	101		

On June 21, 1917, speaking before the Senate Committee on Agriculture, Mr. Hoover stated, "Altogether we face the amazing situation of the country producing a surplus of foodstuffs and paying the highest prices known to its history."²

According to the index numbers of the United States Department of Labor, wholesale prices of food in June, 1917, stood at 2 per cent above the index price for all commodities.³

Speaking at Harvard University, Mr. Hoover stated, "By our entry into the war we arrive at two issues: first, the issue we must have partially fronted in any event—the control of our food so as to ameliorate prices, for unless we can do so, we must meet a raise of wages with all its vicious circle of social disruption at a time when maximum efficiency is vital to our safety; second, that we may also meet the increased demands of our allies that they may remain constant in the war."⁴

An Associated Press report dated December 3, 1917, is as follows: "As to the regulation of prices of all commodities by the government, Mr. Hoover said that either prices must be regulated or there must be a continuous wage increase, and added:

¹ Recalculated from Reports of the U. S. Department of Labor.

² U. S. Food Administration Bulletin 2, p. 9.

³ U. S. Department of Labor, *Monthly Labor Review*, Vol. VII, No. 3, p. 109.

⁴ U. S. Food Administration Bulletin 2, p. 13.

"In other words, wages must ascend according to the prices of the necessities of life. I mean by that that the high cost of living must stop or we must have a continuous ascending wage scale. A continuous increase in wages usually undermines national efficiency, and, of the two evils, it is evident that we must make an effort to regulate prices."

In December, wholesale prices of foods stood at 2 per cent above the general price level of all commodities.

Presumably these statements represent the general point of view of the food-price-control policy in the United States. Another motive, not so widely published but often referred to in private, was the fear of the foreign element in cities.

Attempting to hold down food prices so as to prevent labor, or any other prices, from rising when the circulating medium is constantly being increased may, at times, be expedient but is fundamentally unsound. It is an attempt to place the entire burden of inflation on one set of commodities.

Some Effects of Price Fixing

Fixed prices may be the same as the competitive price would be, or may be higher or lower than the competitive price. They have the corresponding effects, modified by the general psychological effects that fixed prices have on producers and consumers.

If prices are fixed at what the competitive price would be, the supply of the product will ordinarily be sufficient to meet the demand.

If prices are fixed higher than the competitive price, production will ordinarily be unduly stimulated and consumption reduced, with a consequent surplus. The government must then find a means of forcing consumption or accept a loss. No example of this has so far occurred in the field of agriculture. If the weather should be favorable and if the currency is not further inflated, it is probable that this may occur with wheat in 1919.

If prices are fixed below the competitive price, consumption of the product must be limited or the supply will not meet the demand. The experience with wheat illustrates this law.

Some Effects of Price Fixing as Illustrated by Wheat

In the fall of 1917 the average farm price of wheat was reduced from \$2.29 to \$2.01.⁵ Had prices not been fixed, it is probable

⁵ U. S. Department of Agriculture *Monthly Crop Report*, Dec., 1917, p. 134.

that the price would have gone to \$3. Press statements have been made that wheat would have been \$5 and flour \$30 if prices had not been fixed. A comparison of the prices of competing food products over a series of years shows no reason for expecting such prices.

When the price was reduced a portion of the public was prevented from eating wheat by patriotic appeal, but another portion began to eat wheat at an abnormal rate, so that the total consumption in the first part of the year was slightly more than in 1916-17, when wheat was relatively higher compared with the prices of other foods. An unduly large proportion of the year's crop was consumed by February, and the year's exports were low (Tables 3 and 4). It then became necessary to compel the use of wheat substitutes.

TABLE 3.—PRODUCTION AND EXPORT OF WHEAT FLOUR*

	July 1, 1916 to Feb. 1, 1917	July 1, 1917 to Feb. 1, 1918
Production, barrels	41,264,981	43,481,057
Exports, barrels	8,495,100	9,640,400
Difference, barrels	32,769,881	33,840,657

* U. S. Food Administration Bulletin 769, p. 7, and Bulletin 741, p. 6.

TABLE 4.—EXPORTS OF WHEAT AND WHEAT FLOUR IN TERMS OF WHEAT*

July 1, 1916 to June 30, 1917	203,707,598 bushels
July 1, 1917 to June 30, 1918	127,743,687 bushels
Decrease	37 per cent

* U. S. Food Administration Bulletin 1375, p. 6.

During the fall of 1917 urgent appeals were made to farmers to market their wheat more rapidly. Many newspapers contained sharp editorials condemning farmers for hoarding. The public was assured that Americans would not be rationed. The government report on March 1 indicated that only 17 per cent of the crop was on farms and the amount in elevators was extremely low.⁶ It then became apparent that the crop had been marketed and consumed too rapidly. Consumers then turned to rye. The

The highest price after the new crop was harvested was \$2.29 on Aug. 1. The price was \$2.01 on Dec. 1, after prices were fully under control. The commonly quoted \$2.20 price is for a particular grade of wheat in particular markets. It is not the price that farmers received.

⁶ U. S. Department of Agriculture *Monthly Crop Report*, March, 1918, p. 21.

farm price of rye jumped from \$1.75⁷ in February to \$2.35⁷ in April. Rules were made requiring the substitution of other flours in place of rye and wheat and in June the farm price of rye dropped back to \$1.88.⁷

When the price of wheat was fixed the first effect was to widen the spread between the farm price of wheat and the New York wholesale price of "Minnesota Patent" flour. Later the spread was reduced to about the same as it was in 1916 (Table 5). To determine the effect that this had on millers' profits the price of bran and middlings would also have to be considered, as would the closeness of milling.

TABLE 5.—DIFFERENCE BETWEEN FARM PRICE OF WHEAT AND NEW YORK PRICE OF FLOUR*

Year	Amount by which wholesale price of a barrel of flour in New York exceeds farm price of 4.5 bushels of wheat
1915	\$1.73
1916	1.86
Jan.-July 1917	2.85
Aug. 1917	3.00
Sept. 1917	3.81
Oct. 1917	3.22
Nov. 1917	2.50
Dec. 1917	2.46
Jan.-May 1918	1.85

* Prices of flour are from Bradstreet's. Price of wheat from reports of the U. S. Department of Agriculture.

The price of bran was fixed in the spring of 1918. The fixed price was ineffective in many cases. By combination sales and by mixing with other feeds, a price higher than the supposed price has often been charged. The distribution in different regions was also changed as a result of the fixed price. The actual cost to farmers was made very high in the East, but was slightly lowered in the Middle West. For the six New England States the average price paid by farmers on September 15, 1917, was \$39.48. On September 15, 1918, when the price was supposed to be fixed, the prices paid averaged \$48.58.⁸ At the same time the prices in many of the Middle Western states were lowered. The actual operation of the fixed price made it impossible for many farmers to obtain bran, and acted to the particular injury of New England.

The fixed price of wheat when currency was constantly being

⁷ U. S. Department of Agriculture *Monthly Crop Report*, July, 1918, p. 82.

⁸ *Ibid.*, October, 1918, p. 131.

inflated and when the prices of other commodities were constantly rising resulted in a constantly decreasing purchasing power. The index number of purchasing power for the farm price of wheat was 132 in September, 1917, and 116 in June, 1918. A fixed price when general prices are rising not only results in a loss in purchasing power by holding wheat, but the shrinkage is also lost. Under such circumstances a fixed price may be expected to result in dumping the product on the market as soon as possible after harvest.

The wheat movement in 1917 was rapid, but by no means as rapid as it would have been had farmers been sure that the price was really to remain fixed. Many farmers believed that by some means a higher price would later be obtained. By the fall of 1918 the fact that the price was to remain fixed was understood, and the wheat movement from July 1 to December 14 was greater than ever before occurred in the same period. The marketing would have been much faster, but in many cases the movement from farms was stopped either by refusal to furnish cars or by the refusal of the elevators to buy.

TABLE 6.—WHEAT MOVEMENT JULY TO DECEMBER, 1918*
(Million Bushels)

Year	Produced	Movement July to December
1910	635	151
1911	621	155
1912	730	232
1913	763	206
1914	891	301
1915	1,026	288
1916	636	236
1917	651	123
1918	917	324

* The dates in December vary from 11 to 17 in different years. Figures for production are from the U. S. Department of Agriculture. The wheat movement is from Bradstreet's.

The *Weekly News Letter* of the U. S. Department of Agriculture, Jan. 8, 1919, p. 3, states that up to Nov. 29, the total amount sold from farms was 588 million bushels, but much of this apparently had not reached the channels from which Bradstreet's reports are made.

When the price received is compared with the index numbers for wholesale prices, the fixed price of wheat in 1917 resulted in paying farmers less per acre of winter wheat planted than had been paid for any crop since 1906, except for the crop of 1912 (Table 7). The fixed price gave the average acre of winter wheat

planted for the 1917 crop a purchasing power of only 88 per cent of the five-year average before the war.

TABLE 7.—PRICES AND INDEX NUMBERS OF THE PURCHASING POWER OF WINTER WHEAT*

Crop year	Price Dec. 1	Purchasing power		
		Per bushel	Per acre harvested	Per acre planted
1910-1914	87.7 cents	100	100	100
1913	82.9	92	94	98
1914	98.6	111	130	140
1915	94.7	101	101	110
1916	162.7	125	106	104
1917	202.9	125	117	88
1918	206.7	111	104	100

* In preparing this table the value of the crop produced was divided by the acres planted to determine the value produced per acre planted. The resulting figures were divided by the index number for wholesale prices of all commodities to get the purchasing power per acre planted. Other results were similarly calculated. For 1918 the index number for all commodities was taken for Sept. 1, as the Dec. 1 figure is not available. It is not possible to make a similar table for spring wheat because the area abandoned is not reported.

The actual price, the purchasing power per acre planted, and the purchasing power per acre harvested all influence later planting. But, in general, the returns per acre planted are most significant. The good returns in 1914 resulted in a great increase in acreage. The yield per acre was also high. The price was therefore disappointing and the acreage dropped back nearer to the normal. The crop of 1916 sold for a higher price but the yield was poor so that the acreage planted for 1917 increased but did not reach the record acreage of 1915. The acreage for 1918 was influenced by two factors. The returns were not so good as formerly but a patriotic appeal for planting 47 million acres was made. The actual planting was 42 million acres, about the same as in 1914. The better production in 1918 made the fixed price a much better price per acre planted than the same price was in 1917. The crop of 1918 had a purchasing power per acre planted as good as the five-year average before the war, and gave a little better than average returns per acre harvested. This might have been expected to result in an increase in planting over the area planted for 1918. Two other factors contributed to the increased acreage for 1919. Many persons believed that the war would stop and that the prices of other grains would drop. A patriotic

appeal was made for planting 45 to 47 million acres. The result was a planting of 49 million acres.

The net result seems to have been about as follows. The fixed price resulted in a very poor net return to farmers for the effort expended in raising winter wheat in 1917, a smaller acreage in 1918 than would have been raised had prices not been fixed, and a greatly increased acreage for the crop of 1919.

Apparently the fixed prices reduced the amount that farmers received in 1917 by 300 to 500 millions of dollars. If the weather is normal or better, it is possible that the federal treasury or the consumers will be called on to return this in 1919. The fixed price also resulted in the consumption of wheat in the first part of the year, and the eating of its substitutes in the last part of the year. In every way the fixed price has resulted as would have been expected.

Fixed Prices for Storage Eggs

The fixed price at which cold-storage eggs could be sold prevented fresh eggs from rising in price in the winter of 1917-18 as much as they would have done in keeping pace with currency inflation, and with the advance of the season.

The purchasing power of eggs compared with the four-year average for the same months before the war stood at 101 in June, 1917. In December it dropped to 78. At the same time feeds were high. The purchasing power of corn stood at 122. The result was an excessive marketing of hens. The effect in New York State was shown by the State Census. Hens decreased from 10,738,960 on April 21, 1917, to 8,907,644 on February 1, 1918.

To stop the slaughter of hens, the Food Administration made a rule prohibiting their sale. However, such a rule could not compel the raising of chickens. It seems probable that the price of eggs to consumers in the winter of 1918-19 and 1919-20 may more than offset the saving in 1917-18. Such violent fluctuations in profits are often followed by equally violent reactions. It is possible that the next effect will be the raising of too many chickens in 1919 and consequent over-production of eggs in the spring of 1920.

Other Farm Products

Space forbids discussion of other farm products. The point at which prices were fixed was largely a matter of accident as to who

was on the committee that fixed prices. The fixed price of wool (July, 1918) still left it the highest priced farm product. Compared with the four-year average before the war it had a purchasing power of 165. Wheat (December, 1917) had a purchasing power of 131, but owing to the poor yield this price had a low purchasing power per acre planted. Iron (December, 1917) had a purchasing power of 121, copper 89, eggs 78, butter 80. The prices of cotton with a purchasing power of 127 and cottonseed 170 (December, 1917) were not fixed.

Agriculture, as well as the city, has cases of fixed income and increasing costs. For example, horses are raised on high-priced feed and sold at prices actually lower than before the war. In general, the producers of products that have a purchasing power much below 100 have not been well enough satisfied to maintain their normal production. The farm values of the following products were among those that had a purchasing power of less than before the war: beef cattle, veal calves, milk, butter, chickens, eggs, potatoes, and onions. Among the products with a purchasing power higher than before the war were wool, sheep, cotton, grains, and hogs. Monthly prices for thirty products were shown by curves but there is not room to reproduce these. It is expected that they will be published elsewhere.